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PACIFIC TELESIS
Group-Washington

ORIGINAL
FILE

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MAY 18 1992

Federal Communications Commission
Office of the Secretary

May 18, 1992

Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Dear Ms Searcy:

Re: *CC Docket No. 92-91*

On behalf of Pacific Bell, please find enclosed an original and six copies of its "*Direct Case of Pacific Bell*" in the above proceeding.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,

Jo Ann Goddard Riley /ds

Enclosures

No. of Copies rec'd 0+5
List A B C D E

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC

In the Matter of	)	
	)	
Open Network Architecture Tariffs of Bell Operating Companies	)	CC Docket No. 92-91
	)	

DIRECT CASE OF PACIFIC BELL

Pursuant to the Order Designating Issues for Investigation released by the Commission on April 16, 1992 ("Designating Order"),[1] Pacific Bell submits this Direct Case showing that its Open Network Architecture (ONA) rates are just and reasonable and should be permitted to remain in effect unchanged.

I. THE MODEL OFFICE INPUTS TO SCIS ARE REPRESENTATIVE.

A. Model Office Development.

The Bureau seeks information on the data used to create the model office used in the SCIS model.[2]

Pacific Bell's model office consists of 382 host and remote switches: 170 are 1AESS, 107 are 5ESS, and 105 are DMS 100. The SCIS model office data reflects year end 1990

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[1] Open Network Architecture Tariffs of Bell Operating Companies, CC Docket No. 92-91, Order Designating Issues for Investigation, DA 92-483, released April 16, 1992.

[2] Designation Order, p. 3.

information. At that time Pacific Bell had 492 switches in service.

Pacific Bell did not use statistical sampling techniques to develop its model office. Rather, it included data for all switches for which sufficient traffic data existed. Therefore, the only switches not included were those that were too recently installed to allow for projection of the processor utilization, replacement and exhaust date information required by SCIS.

Pacific Bell's switch selection criteria and the fact that it included a preponderance (i.e., 78%) of the switches in SCIS produces a model office which is representative of Pacific Bell's actual switched environment.

B. Assumptions Regarding Switch Replacement.

The Bureau requests information on each switching office and remote and the corresponding assumptions regarding switch replacement and switch capacity at replacement that are used to develop the SCIS "model office."[3] Attachment A lists the offices in the SCIS model along with the switch capacity at replacement and the replacement schedule.

[3] Id.

II. THE COST OF MONEY VALUES THAT PACIFIC USED ARE REASONABLE.

The Bureau directs carriers that used a cost of money greater than 11.25%, either as a SCIS variable or at any point in the ratemaking process, to explain why the use of such a "cost of money" ("COM") is reasonable.[4] Pacific Bell used two COM variables in its BSE ratemaking process, a SCIS variable and a rate of return variable.

For the SCIS "COM" input, Pacific used an annual rate of 13.04% (12.26% nominal). This value represents Pacific Bell's internal estimate of the cost of acquiring new investment in the market. This rate is based on Pacific Bell's own capital structure and the expected future market costs of debt and equity financing. Pacific uses this rate to evaluate its investment decisions. It is appropriate to use this rate in SCIS because it represents the projected cost Pacific expects to incur in the financial markets in order to acquire and place new investment.

Pacific also notes that a change in the SCIS COM input has little effect on SCIS results. In deriving a "cost per millisecond," the SCIS program uses the COM input to determine both the total present worth of demand and the total present worth of investment over the economic life of the switch. Because SCIS uses the COM in both the numerator and the denominator of the "cost per millisecond" equation, a small

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[4] Id., p. 3.

change in the input (such as from 12.26% to 11.25%) does not significantly affect the SCIS results. (See Attachment B.)

The authorized rate of return for local exchange companies ("LEC") is different from the future COM in financial markets used in the SCIS model. The authorized rate of return is used to calculate the level of revenues which may reasonably be earned on a given level of investment to enable the LEC to be financially viable. Pacific used 11.25% in this calculation in its ONA tariff.[5]

III. INCLUSION OF 1AESS COSTS IN DEVELOPMENT OF BSE RATES IS APPROPRIATE.

The Bureau directs carriers that based their BSE rates in part on costs associated with 1ESS switches and 1AESS switches to explain why including costs for this switching equipment in BSE rate development is reasonable.[6] Carriers that did so must provide a comprehensive listing of BSE rates that would be developed excluding these switch technologies. The Bureau also requests that the carriers explain how embedded switch technology assumptions promote the following four goals of the Commission: 1) how BOC flexibility to price efficiently is furthered by the assumption of embedded switch technology; 2) how BOC incentives to innovate are fostered by the reliance on embedded switch technology; 3) how reliance on embedded technology costs fosters

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[5] Transmittal Letter No. 1553, Vol. 1-1, p. 4.b.5.

[6] Designation Order, p. 3.

the Commission's stated goal that BOCs not set rates excessively high; and 4) how reliance on embedded technology furthers the goal that BOCs not engage in unreasonably discriminatory pricing.[7]

Although Pacific Bell did not include 1ESS costs in its BSE rate development process, it did include 1AESS costs. This is appropriate because BSEs may be provisioned on the 1AESS switch and in many cases it is more efficient to do so. Certain BSEs may be provided at lower rates using 1AESS technology rather than digital technology. See Attachment C for the BSE rates which result after 1AESS costs are removed.

Although Pacific Bell's per unit investment costs were based on its model office technology mix, its BSE rates do not reflect an "embedded technology assumption."[8] This is because Pacific Bell weighted its SCIS unit investments using a three-year projection of incremental switch technology mix. Consequently, Pacific Bell's BSE rates reflect a forward-looking or incremental switch technology mix, not an "embedded" one. Even a technology such as 1AESS has incremental costs because of forward-looking demand. Pacific Bell's inclusion of incremental 1AESS switch technology in weighting its SCIS unit investments furthers the Commission's goals of fair and efficient pricing because this directly reflects the switching technologies Pacific Bell plans to use in the future. Because Pacific Bell

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[7] Id.

[8] Designation Order, p. 3.

still expects to utilize 1AESS switch technology during the three-year period, these incremental costs should be included in its BSE rates. As the Commission has stated, "economically efficient prices reflect the manner in which costs are incurred."[9]

The converse, i.e., requiring Pacific to assume that all switch technology will be digital, inhibits the ability to price efficiently. It assumes that Pacific would arbitrarily replace economically viable 1AESS switches with digital switches. To do so would result in higher incremental costs and decrease the likelihood that the BSEs would generate positive net revenue. Thus it would contravene the Commission's goal of avoiding excessively high rates. This is demonstrated in Attachment C, which shows the BSE rates that would result if 1AESS costs are excluded.[10] As these work papers show, when BSE rates are calculated without the 1AESS costs, some rates increase, some remain the same, and some decrease. However, any significant reduction in an unbundled BSE may require a compensatory increase

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[9] Amendments of Part 69 of the Commission's Rules Relating to the Creation of Access Charge Subelements for Open Network Architecture, CC Docket No. 89-79, Policy and Rules Concerning Rates for Dominant Carriers, CC Docket No. 87-313, Report and Order & Order on Further Reconsideration & Supplemental Notice of Proposed Rulemaking, 6 FCC Rcd 4524, para. 50 (1991) ("Part 69 Order").

[10] These rates were developed identically to those that are already in effect, except that the projected technology mix used to weight SCIS unit investments excluded Pacific Bell's incremental 1AESS costs. Thus, they are purely hypothetical. They are not based on the costs Pacific Bell expects to incur.

in the related BSA in order to comply with the Commission's requirements to maintain revenue neutrality.[11]

IV. IT IS APPROPRIATE TO APPLY DIFFERENT LOADINGS BASED ON WHETHER A BSE IS ASSOCIATED WITH SWITCHED OR SPECIAL ACCESS.

The Bureau directs carriers to justify non-uniform loadings.[12] Pacific Bell BSE is specifically cited regarding its Network Reconfiguration BSE.

Pacific Bell uses cost factors for administrative expenses that are determined by product category. The total non-investment related expenses for a product category are calculated and divided by the total cost for that product category to get the "administrative" cost factors. Different product categories have different cost factors for expenses such as Sales, Marketing, and General Expenses since different products require varying expense levels to provide the products.

Network Reconfiguration is in Pacific Bell's Interstate Special Access product category. Pacific Bell's other BSEs are in its Interstate Switched Access product category. Therefore, the cost factors for Sales, Marketing, Accounting, Other General Expenses, etc. are different for the Network Reconfiguration BSE than for Pacific Bell's other BSEs. The different cost factors result in different administrative cost factors which, in turn, lead directly to different overhead loading factors.

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[11] Part 69 Order, para. 48.

[12] Designation Order, p. 4.

The process by which Pacific Bell developed its overhead loadings for the Interstate Special and Switched product categories is explained in Transmittal Letter No. 1570, Appendix B. (A copy is provided in Attachment D.)

V. DIFFERENCES BETWEEN BSE RATES AND UNIT COSTS ARE JUSTIFIED.

The Bureau is concerned that some BSE rates do not appear to represent the aggregate of direct costs plus overheads and directs carriers either to demonstrate that the unit costs they used are in fact equivalent to the tariffed rate or to justify the difference between the rate and unit costs (direct cost plus overheads).[13] The Bureau has questioned Pacific Bell's rates for Multiline Hunt Group and Three Way Call Transfer on this basis.

Multiline Hunt Group has a monthly cost of $0.1819 and a proposed rate of $0.20. Three Way Call Transfer has a monthly cost of $0.0557 and a proposed rate of $0.05. Pacific Bell believes it is reasonable to round its non-usage sensitive rates to the nearest nickel. Certain BSE rates, therefore, reflect such rounding. Rounding of this sort is not appropriate for BSEs such as Automatic Number Identification which are usage sensitive and apply to a large volume of messages.

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[13] Designation Order, p. 4.

Pacific Bell notes that had it proposed a rate for Three Way Call Transfer of $0.06 instead of $0.05, the price to cost ratio would have been 1.077 which is not dramatically closer to 1.0 than the current ratio of 0.898.

VI. CONCLUSION.

Pacific Bell's answers to the Bureau's questions show that its BSE rates are just and reasonable. Therefore, they should be permitted to remain in effect without change.

Respectfully submitted,

PACIFIC BELL

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Date: May 18, 1992

CERTIFICATE OF SERVICE

I, C. A. Helms, hereby certify that copies of the foregoing "DIRECT CASE OF PACIFIC BELL", re CC Docket No. 92-91, were served by hand or by first-class United States mail, postage prepaid, upon the parties on the attached Service List on this 18th day of May, 1992.

By: _____
C. A. Helms

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San Francisco, California 94105

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ATTACHMENT A

S C I S C O S T S S T U D Y
NO. 1A ESS OFFICES

1AESS90.WK1
MAY 7, 1992

% Replace (PUR)	No. of Offices	Pct Offices
30	1	0.6%
90	1	0.6%
95	167	98.2%
100	1	0.6%
Total	170	100.0%

Years to Replace	No. of Offices	% No. of Offices
1	1	0.6%
6	1	0.6%
9	1	0.6%
15	165	97.1%
55	1	0.6%
73	1	0.6%
Total	170	100.0%

SUMMARY

5ESS OFFICES - HOST & REMOTE DATA

% CAPACITY @ REPLACEMENT	NO. OF OFFICES	PERCENT OFFICES	YEARS TO REPLACE	NO. OF OFFICES	PERCENT YRS. TO REPLACE
95	69	64%	15	74	69%
85	1	1%	20	19	18%
100	10	9%	25	4	4%
75	2	2%	28	3	3%
90	14	13%	30	3	3%
50	7	7%	35	2	2%
80	1	1%	40	1	1%
40	2	2%	50	1	1%
70	1	1%			
TOTAL	107	100%		107	100%

SUMMARY

DMS100 OFFICES - HOST & REMOTE DATA

% REPLACE (PUR)	NO. OF OFFICES	PCT OFFICES	YEARS TO REPLACE	NO. OF OFFICES	PERCENT YRS. TO REPLACE
100	2	2%	86	1	1%
97	1	1%	50	1	1%
96	1	1%	20	3	3%
95	88	84%	15	93	89%
90	3	3%	10	2	2%
86	2	2%	6	1	1%
85	4	4%	5	2	2%
78	1	1%	4	1	1%
75	1	1%	3	1	1%
70	2	2%			
TOTAL	105	100%		105	100%

S C I S C O S T S T U D Y
5ESS OFFICES - HOST DATA - TCBH
"FCC5ESS.WK1"

OFFICE #	WIRE CODE	WIRE CTR	LOC	SWITCH REPLACEMENT SCHEDULE Base Year 1990 # of Yrs.	% SWITCH CAPACITY @ REPLACEMENT
1				15 yrs.	95 %
2				15	95
3				25	85
4				20	100
5				15	95
6				15	95
7				30	95
8				50	95
9				15	95
10				15	95
11				20	75
12				15	95
13				15	95
14				15	95
15				15	90
16				20	95
17				20	50
18				20	95
19				20	50
20				15	50
21				15	50
22				15	95
23				20	90
24				35	90
25				15	95
26				25	80
27				15	95
28				15	95
29				15	95
30				15	70
31				15	95
32				25	90
33				15	90
34				30	90
35				15	95
36				20	90
37				35	90
38				15	95
39				15	95
40				15	95
41				15	95
42				15	95
43				15	95
44				15	95
45				15	100

46	15	95
47	15	95
48	15	95
49	15	95
50	15	95
51	40	90
52	15	100
53	15	95
54	15	95
55	20	90
56	20	100
57	15	95
58	15	95
59	15	95
60	15	95
61	15	95
62	15	40
63	15	95
64	28	100
65	20	90
66	15	95
67	15	95
68	15	95
69	15	95
70	20	95
71	15	95

S C I S C O S T S T U D Y
5ESS OFFICES - REMOTE DATA - TCBH

OFFICE #	WIRE CTR CODE	WIRE CTR LOC	SWITCH REPLACEMENT SCHEDULE Base Year 1990 # of Yrs.	% SWITCH CAPACITY @ REPLACEMENT
1				
2			NOTE:	
3				
4			Remote switches have the same	
5			switch replacement schedules	
6			and switch capacity as the	
7			Host Offices.	
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
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31				
32				
33				
34				
35				
36				

01-May-92

S C I S C O S T S T U D Y
DMS100 OFFICES - HOST DATA
"FCCDMS.WK1"

OFFICE #	OFF TYPE	PROC TYPE	CODE	LOC	SWITCH REPLACEMENT SCHEDULE Base Year 1990 # of Yrs.	% SWITCH CAPACITY @ REPLACEMENT
1					15 yrs.	95 %
2					15	95
3					10	96
4					15	95
5					15	95
6					15	95
7					15	85
8					15	95
9					15	95
10					15	95
11					15	95
12					20	95
13					15	95
14					15	95
15					15	95
16					15	95
17					15	95
18					15	95
19					15	95
20					3	97
21					15	95
22					15	95
23					50	95
24					15	95
25					15	95
26					15	95
27					15	95
28					15	95
29					20	100
30					15	95
31					15	95
32					15	95
33					15	95
34					15	85
35					15	85
36					15	85
37					15	95
38					15	90
39					15	95
40					4	86
41					6	78
42					15	95
43					15	95
44					15	95
45					15	95
46					15	95
47					15	95

48	15	95
49	15	95
50	15	95
51	15	95
52	15	95
53	15	95
54	15	95
55	15	95
56	15	95
57	15	95
58	15	95
59	15	95
60	15	95
61	15	95
62	15	95
63	15	95
64	15	95
65	15	95
66	15	95
67	15	95
68	15	95
69	15	95
70	5	70
71	5	95
72	15	95
73	15	95
74	15	95
75	15	95
76	15	95
77	15	95
78	15	95
79	86	95
80	15	95
81	15	95
82	15	95
83	15	95
84	15	95
85	20	100
86	15	75
87	15	95
88	10	90
89	15	70

S C I S C O S T S T U D Y
DMS100 OFFICES - REMOTE DATA

OFFICE #	OFF TYPE	REM TYPE	CODE	LOC	SWITCH REPLACEMENT SCHEDULE Base Year 1990 # of Yrs.	% SWITCH CAPACITY @ REPLACEMENT
1						
2						
3					NOTE:	
4					'Remote switches have the same	
5					switch replacement schedules	
6					and switch capacity as the	
7					Host Offices.	
8						
9						
10						
11						
12						
13						
14						
15						
16						

FCC1AESS.WK1"

S C I S C O S T S S T U D Y
#IA ESS OFFICES
Dec 09 1986

OFFICE NO.	WIRE CENTER	SWITCH REPLACEMENT SCHEDULE Base year 1986 # of Yrs.	% SWITCH CAPACITY @ REPLACEMENT
1		15 yrs.	95 %
2		15	95
3		15	95
4		15	95
5		15	95
6		15	95
7		15	95
8		15	95
9		15	95
10		15	95
11		15	95
12		6	100
13		15	95
14		15	95
15		15	95
16		15	95
17		15	95
18		15	95
19		15	95
20		15	95
21		15	95
22		15	95
23		15	95
24		15	95
25		15	95
26		15	95
27		15	95
28		15	95
29		15	95
30		15	95
31		15	95
32		15	95
33		15	95
34		15	95
35		15	95
36		15	95
37		15	95
38		9	90
39		15	95